

Message Text

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ACTION EA-12

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EO 11652: NA
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SUBJ: GOVERNOR OF BANK OF THAILAND ON THAI ECONOMY

1. DR. SANO UNAKUN, GOVERNOR, BANK OF THAILAND, SPOKE ON JANUARY 5, 1978, TO FOREIGN CORRESPONDENTS CLUB ON "REFLECTIONS ON THE THAI ECONOMY." SANO ASSESSED THE THAI ECONOMY'S GENERAL PERFORMANCE DURING 1977 AND OUTLINED MEASURES WHICH BANK OF THAILAND PLANS TO TAKE IN 1978 TO HELP MEET THAILAND' CURRENT AND FUTURE ECONOMIC REQUIREMENTS. SPEECH WAS IN CONTEXT OF CONTINUING YEAREND DISCUSSION AND DEBATE WITHIN RTG AND BANKING CIRCLES ON STATE OF THAI ECONOMY, SETTING OF ECONOMIC PRIORITIES AND DEVELOPMENT OF RTG ECONOMIC POLICIES.

2. SANO SAID THAT DURING 1977 THAI ECONOMY ACHIEVED "RESPECTABLE" REAL GROWTH RATE OF 6.2 PERCENT. AT SAME TIME THAILAND HAD 8 PERCENT RATE OF INFLATION AND BALANCE OF PAYMENTS DEFICIT OF
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\$375 MILLION. SANO DESCRIBED THAILAND'S FOREIGN RESERVES OF \$1.8 BILLION AS "STILL SIZEABLE AND ADEQUATE BY INTERNATIONAL STANDARDS." HE EMPHASIZED THAILAND'S GOLD RESERVES ARE STILL VALUED AT AN OFFICIAL PRICE OF \$42 PER OUNCE RATHER THAN THE CURRENT WORLD MARKET PRICE. THAILAND'S ACTUAL FOREIGN CURRENCY RESERVES WOULD BE CONSIDERABLY GREATER THAN \$1.8 BILLION IF THE WORLD MARKET PRICE WERE USED IN COMPUTING RESERVES. HE

OBSERVED THAILAND HAS LOW DEBT-SERVICE RATIO AND GOOD INTERNATIONAL CREDIT RATING. HE NOTED THAT DURING CURRENT FISCAL YEAR WHICH BEGAN ON OCTOBER 1, 1977, THAILAND HAS ALREADY BORROWED \$240 MILLION ON FAVORABLE TERMS FROM INTERNATIONAL SOURCES AND INTENDS TO BORROW ANOTHER \$500-600 MILLION.

3. SANO CAUTIONED ECONOMIC PREDICTIONS FOR 1978 ARE MORE PESSIMISTIC AND PROMISED THAT BANK OF THAILAND WILL COOPERATE WITH BOTH RTG AND PRIVATE SECTOR IN DEVELOPING "INNOVATIVE" ECONOMIC POLICIES. SANO NOTED ONE MAJOR ECONOMIC PROBLEM FACING THAILAND IS WIDENING TRADE AND PAYMENTS DEFICIT. IN THIS REGARD BANK OF THAILAND WILL SUPPORT RTG'S POLICY OF EXPORT EXPANSION BY "GEARING ITS REDISCOUNTING FACILITIES TO PRIORITY NEED FOR EXPORT REFINANCING COMMONLY KNOWN AS THE PACKING CREDIT." AT SAME TIME BANK WILL ALSO WORK TO REDUCE GROWTH OF IMPORTS THROUGH GENERAL LIMITATION ON DOMESTIC CREDIT EXPANSION WITH SPECIAL EMPHASIS ON CREDIT USED FOR FINANCING IMPORTATION OF CONSUMER DURABLES. SANO EXPRESSED HOPE THESE MEASURES ALONG WITH UNSPECIFIED CHANGES IN RTG FISCAL AND TRADE POLICIES AND EXPANSION OF "INVISIBLE INCOME" FROM TOURISM AND INTERNATIONAL TRANSPORTATION WOULD BRING THAILAND'S BALANCE OF PAYMENTS DEFICIT "WITHIN MANAGEABLE LIMITS."

4. SANO ASSURED AUDIENCE BANK OF THAILAND WOULD SEEK TO KEEP BAHT "STRONG AND STABLE CURRENCY." (IN SEPARATE BUT RELATED DEVELOPMENT SANO AND FINANCE MINISTER SUPHAT SUTHATHAN RELEASED LIMITED OFFICIAL USE

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JOINT STATEMENT ON JANUARY 5, 1977 THAT THAILAND WILL MAINTAIN PRESENT PARITY OF THE BAHT WITH THE DOLLAR AND WOULD NOT DEVALUE OR FLOAT THE BAHT AS RUMORED IN BANGKOK POST ARTICLE.)

5. ON DOMESTIC ECONOMIC POLICY, SANO SAID BANK OF THAILAND WOULD "CONTINUE TO SUPPORT EXPANSION OF ECONOMY" WITHIN LIMITS OF PRUDENT FINANCIAL MANAGEMENT. HOWEVER, BANK WOULD SEEK TO PREVENT EXCESSIVE DEMAND-PULL INFLATIONARY PRESSURE BY CONTROLLING DOMESTIC CREDIT EXPANSION AND LIMITING GROWTH OF MONEY SUPPLY. NEVERTHELESS BANK WOULD SUPPORT RTG EFFORTS TO CHANNEL FUNDS INTO DROUGHT-STRICKEN PARTS OF COUNTRY THROUGH VARIOUS CREDIT SCHEMES FOR FARMERS AND LABOR-INTENSIVE RURAL DEVELOPMENT PROGRAMS.

6. COMMENT: DESPITE ADVERSE IMPACT OF RECENT DROUGHT AND CHRONIC OVER-CAPACITY IN TEXTILE INDUSTRY, THAILAND'S ECONOMY PERFORMED REASONABLY WELL IN 1977 WITH RICE EXPORTS OF 2.9 MILLION METRIC TONS BREAKING ALL RECORDS AND INCREASED RUBBER AND TIN EXPORTS. WHILE CORN EXPORTS DECLINED 30 PERCENT BECAUSE OF THE DROUGHT, SUGAR AND TAPIOCA EXPORTS INCREASED DEMONSTRATING BENEFITS FROM RTG EFFORTS TO PROMOTE GREATER AGRICULTURAL DIVERSIFICATION. ALTHOUGH THAILAND FACES SOME LONG TERM ECONOMIC

PROBLEMS, THAI ECONOMY IS BASICALLY STRONG AND CURRENT PROBLEMS SHOULD BE MANAGEABLE. CONSEQUENTLY EMBASSY VIEWS PESSIMISM OF SOME RTG OFFICIALS IN RECENT STATEMENTS ON STATE OF THAI ECONOMY AS EXAGGERATED AND PROBABLY CAUSED BY POLITICAL NEED TO PREPARE PUBLIC FOR UNPOPULAR ECONOMIC MEASURES TO AVERT LONG TERM PROBLEMS. SUCH MEASURES COULD INCLUDE RESTRICTIONS ON LUXURY IMPORTS, HIGHER GASOLINE PRICES, A MORE EFFECTIVE TAX STRUCTURE AND HIGHER FOOD PRICES.
O'DONOHUE

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